Construction

Laying The Path Forward

OVERWEIGHT
(Maintained)

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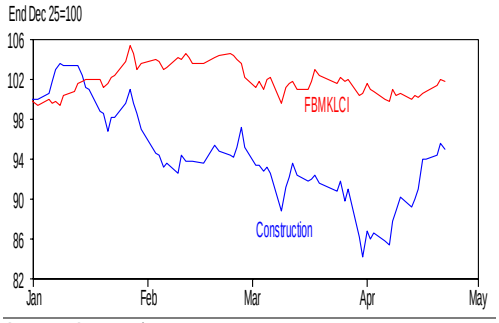
Highlights

- Malaysia's construction sector will see manageable impact from the ongoing US-Israel-Iran war, delivering estimated earnings growth of 15% in 2026 underpinned by accelerated progress billing and improved profit margins.
- The sector upcycle is well supported by resilient DC job flows and tenderbook, with potential RM16b-18b of contracts to be awarded in the coming 1-2 years.
- Maintain OVERWEIGHT; top picks are Gamuda, Suncon, Binastra and Kerjaya.

Analysis

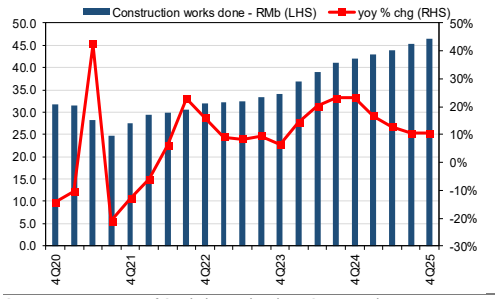
- **Manageable distractions from US-Israel-Iran geopolitical tensions.** While the elevated crude oil prices due to the full blockade of Strait of Hormuz are raising building material prices, on-the-ground cost hikes for construction companies are well capped and less severe than expected. Despite a >100% surge in diesel prices in March, the blended price increase for building material costs is only about 3%: a) steel bar +2.6% mom; b) steel wire mesh -1.4% mom; c) bulk cement flat mom; d) bag cement flat mom; and e) premix +23.6% mom. Prices of other building materials like sand, aggregates and various steel bars are also only up by 0.4-2.6% based on official data.
- **DC upcycle provides orderbook visibility for domestic contractors.** In 2025, Tenaga Nasional signed seven electricity supply agreements (ESA) for data centre (DC) projects with a combined electricity demand of around 1,200MW, bringing total electricity demand for uncompleted projects to around 3,000MW (total 7,500MW for 56 projects). This 1200MW electricity demand translates into roughly 800-900MW of DC capacity, with an estimated RM16b-18b of contract value (based on RM20m per MW estimate) which may be awarded in the coming 1-2 years.
- **Valuations appealing with resilient capital management upside.** While the construction index has retraced 15-16% from 2025's peak, current valuations of the companies under our coverage (average 2027F PE of 18x) remain palatable given multi-year high orderbook and re-rating opportunities stemming from robust domestic liquidity. More importantly, the sector's balance sheet charted improving trend over the last two years following better earnings and cashflow conversion cycle. In line with yoy earnings growth, we anticipate a 3-6% dividend yield for stocks under our coverage, with room for better capital management.

Construction Index VS FBMKLCI



Source: UOB Kay Hian

Value Of Construction Works Done (As Of 4Q25)



Source: Department of Statistics Malaysia, UOB Kay Hian

Sector Top Picks

Company	TP	Upside
Gamuda	5.25	17.7
Sunway Construction	7.40	7.1
Kerjaya Prospeks Group	3.25	51.9
Binastra Corporation	2.68	38.1

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Share Price 26 Sep 25 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY25 (x)	PE FY26F (x)	PE NTA (x)	ROE 2026F (%)	Price/NTA 2026F (%)	2026F Div Yield (%)
Binastra Corporation	BNASTRA MK	BUY	1.94	2.68	2,117.3	21.8	16.8	14.0	53.6	7.2	4.1
Gamuda	GAM MK	BUY	4.46	5.25	26,109.7	29.7	27.8	22.8	10.2	2.0	2.6
IJM Corporation	IJM MK	BUY	2.36	2.60	8,274.6	17.3	24.5	21.0	3.3	0.8	2.7
Kerjaya Prospek Group	KPG MK	BUY	2.14	3.25	2,690.6	17.2	15.6	14.2	21.5	2.0	5.8
Malaysian Resources Corp	MRC MK	HOLD	0.30	0.34	1,341.0	30.9	28.3	21.3	5.4	0.4	3.3
Sunway Construction	SCGB MK	BUY	6.91	7.40	9,135.0	22.4	22.0	21.3	50.6	8.2	4.9
WCT Holdings	WCTHG MK	HOLD	0.375	0.58	585.0	14.1	13.2	13.8	25.2	0.1	0.0

Sources: Bloomberg, UOB Kay Hian

- **Sector's 2026 earnings visibility well backed by elevated outstanding orderbooks.** Recovering from the unprecedented selldown stemming from the ongoing Middle East tensions, we expect the Malaysian construction sector to still deliver sequentially stronger earnings. This is largely underpinned by accelerated progress billing and improved profit margins from existing orderbooks secured over last 1-2 years. Our optimistic view on the sector is further supported by a huge pipeline of domestic infrastructure projects as well as an upswing in project rollouts from the private sector particular within the DC segment. We expect companies under our coverage to deliver an average earnings growth of 15-18% in 2026.
- **Selective local infrastructure contracts to be rolled out in 2H26.** While local contract awards have been slower thus far in 1H26 (2025: RM24.8b), we anticipate few public infrastructure projects such as Penang LRT system package, Johor's Automated Rapid Transit (ART) system, and more water-related infrastructure projects to be awarded in 2H26. These mega projects' packages will still provide ample opportunities for domestic contractors.
- **DC exposures deepen, supporting private job flows and earnings.** Within our coverage, companies such as Gamuda, Suncon, Binastra and IJM have secured four DC projects collectively worth RM4.6b ytd (details in table below). DC projects now make up 11-67% of their respective orderbooks.

DC Projects Secured YTD and Total DC

Companies	Project	Client	Contract Value (RM'm)	Date Awarded	Project Timeline
Gamuda	Hyperscale DC (Port Dickson, Negeri Sembilan)	US MNC	1720	17th April	2Q26-1Q28
Suncon	Hyperscale DC (Bandar Serendah, Selangor)	US MNC	1750	17th April	3Q26-3Q28
Binastra	DC (Cheras, Kuala Lumpur)	Exsim Sri Permai	503	5th Feb	1Q26-3Q27
IJM	Hyperscale DC Package 2 (Elmina Business Park)	Sime Darby Property	658	1st Apr	2Q26-3Q27

Companies	Total outstanding DC orderbook (RM'm)	Total Orderbook (RM'm)	%
Gamuda	5120	45500	11%
Suncon	5814	8700	67%
IJM	4490	9000	50%
Binastra	1349	7100	19%
Kerjaya	0	0	0%
MRCB	0	0	0%
WCT	0	0	0%

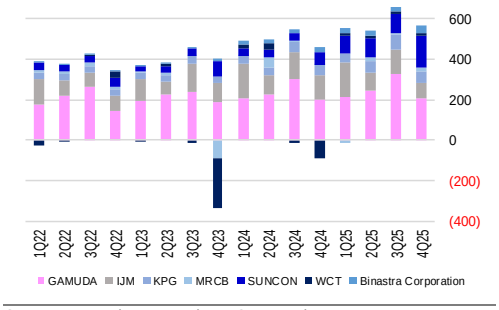
*Orderbook as of latest quarter, total outstanding DC orderbook as of 22nd April
Source: Respective companies, UOB Kay Hian

- **Margin impact from building material cost hike well buffered.** Our channel checks revealed that the impact of higher building material prices on larger scale contractors is relatively manageable due to: a) variation-of-price (VOP) clauses which allow part of the additional costs to be passed on to end-clients; b) building material costs for some existing projects being fixed when the projects commenced; and c) big sites may have their own plants for building material storages.

Valuation/Recommendation

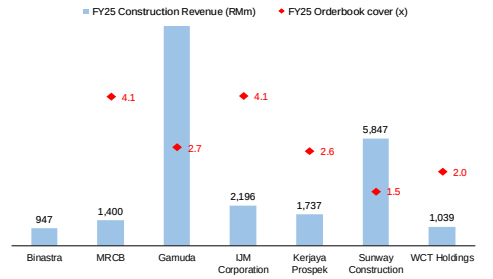
- **Maintain OVERWEIGHT on the Malaysian construction sector.** Sector outlook and earnings growth visibility remain sanguine, with a multi-year sector upcycle anchored by better private job flows throughout 2026-27.
- **Our sector top pick** is Gamuda (BUY/Target: RM5.25), Suncon (BUY/ Target: RM7.40), Binastra (BUY/ Target: RM2.68) and Kerjaya (BUY/ Target: RM3.25). We like these companies for their DC growth aspects and internal project visibility. Ratings and target price of other stocks under coverage are in RHS table.

Construction Firms' Earnings Trend



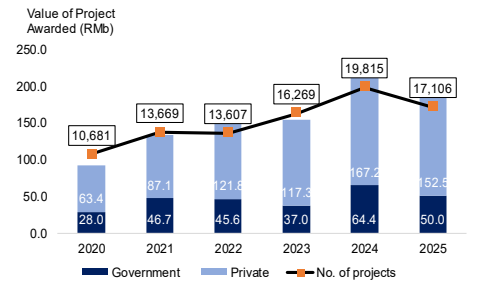
Source: Respective companies, UOB Kay Hian

Orderbook Comparison (as of Mar 26)



Source: Respective companies, UOB Kay Hian

Domestic Projects Awarded



Source: Construction Industry Development Board, UOB Kay Hian

Valuations And Target Price

Company	Ratings	Implied Valuations	Implied TP (RM)
Binastra	BUY	16.8x FY27F PE (mean)	2.68
Gamuda	BUY	22x FY27F PE (+1.5SD above mean)	5.25
Sunway Construction	BUY	22x 2026F PE (+1SD above mean)	7.40
IJM Corp	BUY	23.2x FY27F PE (+0.25SD above mean)	2.60
Kerjaya Prospek Group	BUY	16x 2026F PE (+1SD above mean)	3.25
WCT	HOLD	11.5x 2026F PE (mean)	0.58
Malaysian Resources	HOLD	21x 2027F PE (-1SD below mean)	0.34

Source: UOB Kay Hian

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